

UNIVERSITY OF BOLTON

FACULTY OF WELL-BEING & SOCIAL SCIENCES

ACCOUNTANCY PATHWAY

SEMESTER 1 EXAMINATIONS 2011/2012

**FINANCIAL REPORTING REGULATORY
FRAMEWORK**

MODULE NO: ACC3003

Date: Friday 20th January 2012

Time: 10:00 – 13:00

INSTRUCTIONS TO CANDIDATES:

There are **FOUR** questions on this paper.

Answer all **FOUR** questions.

This is a closed book examination.

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Question 1

On 1 April 2011 Monaco plc acquired 60% of the ordinary share capital of Ecclestone Ltd, the consideration consisted two shares in Monaco for three shares in Ecclestone. The issue of shares has not been recorded by Monaco. At the date of acquisition the shares in Monaco had a market value of £6 each. At the date of acquisition the balance on the retained earnings reserve was £5,000,000. Below are the summarised draft financial statements of both companies.

Statements of comprehensive income for the year ended 30 September 2011

	Monaco plc £000	Ecclestone Ltd £000
Revenue	85,000	42,000
Cost of sales	(63,000)	(32,000)
Gross profit	<u>22,000</u>	<u>10,000</u>
Distribution costs	(2,000)	(2,000)
Administration expenses	(6,000)	(3,200)
Finance charges	(300)	(400)
Profit before taxation	<u>13,700</u>	<u>4,400</u>
Taxation	(4,700)	(1,400)
Profit for the year	<u>9,000</u>	<u>3,000</u>

Statements of financial position as at 30 September 2011

Assets

Non-current assets

Property, plant and equipment	40,600	12,600
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Current assets

Inventory	4,500	1,750
Trade receivables	5,500	3,750
Cash	6,000	1,100
Total assets	<u>56,600</u>	<u>19,200</u>

Question 1 continues over the page....

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Question 1 continued....**Equity and liabilities**

Ordinary shares £1 each	10,000	4,000
Retained earnings	<u>35,400</u>	<u>6,500</u>
	45,400	10,500
Non-current liabilities		
10% loan notes	3,000	4,000
Current liabilities		
Trade payables	8,200	4,700
Total equity and liabilities	<u><u>56,600</u></u>	<u><u>19,200</u></u>

The following information is also relevant:

- I. At the date of acquisition, the fair values of Ecclestone's assets were equal to their carrying values with the exception of an item of plant which had a fair value of £2 million in excess of its carrying amount. It had a remaining life of five years at that date and plant is depreciated using the straight line method. Ecclestone has not adjusted the carrying amount of its plant as a result of the fair value exercise.
- II. Sales from Ecclestone to Monaco in the post acquisition period were £8 million. Ecclestone adds a mark up of 40% on these sales. Monaco had sold £5.2 million of these goods by 30 September 2011.
- III. Other than where indicated, income statement items are deemed to accrue evenly throughout the year.
- IV. Ecclestone's trade receivables at 30 September 2011 include £600,000 due from Monaco which did not agree to Monaco's trade payable. This was due to a payment of £200,000 made on 28 September 2011 which was not received by Ecclestone until 5 October 2011.
- V. Goodwill arising on consolidation is not impaired.

Required:

Prepare the consolidated statement of comprehensive income and the consolidated statement of financial position for the group at the year end 30 September 2011.

Clearly show any workings.

(30 marks)

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Question 2

Clarke Ltd is a small manufacturing company controlled by the directors and the Clarke family. Below is the Statement of financial position of the company as at 31st December 2011.

Statement of financial position as at 31st December 2011

Non-current assets:	£
Intangible – Goodwill	60,000
Development costs	85,000
Tangible - Land & buildings	250,000
Plant & machinery	320,000
 Current assets:	
Inventories	450,000
Trade receivables	<u>533,000</u>
TOTAL ASSETS	<u>1,698,000</u>
 Equity and liabilities:	
Share capital (£1 Ordinary shares)	800,000
Share premium	50,000
Retained earnings	(302,000)
 Current liabilities:	
Trade payables	400,000
Bank loans and overdrafts	<u>750,000</u>
TOTAL EQUITY AND LIABILITIES	<u>1,698,000</u>

Due to overseas competition demand for their products has declined. However, investment has been made on the development of a new range of products and as a result the directors are considering the adoption of the following proposed reconstruction scheme:

- (a) The shares of £1 will be reduced to 20p per share and then every five shares of 20p each will be consolidated as one fully paid share of £1.
- (b) A rights issue will be set up for existing shareholders - 2 new ordinary shares of £1 for every share held after the above change.

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Question 2 continued.....

- (c) One of the trade creditors has agreed to exchange their trade balance of £180,000 for 180,000 ordinary shares of £1 each fully paid.
- (d) In full satisfaction of the bank loan and overdrafts the bankers have agreed to accept an immediate payment of £100,000 and convert the balance owing into a loan, on which an interest rate of 15% per annum will be charged. The capital sum to be repaid in 6 equal instalments starting on 31 March 2012.
- (e) Goodwill, retained earnings and share premium accounts are to be eliminated as part of the reconstruction.
- (f) The following assets are to be re-valued for statement of financial position purposes as follows:

Plant and machinery	£100,000
Inventories	£235,000
Trade receivables	£450,000
Land & Buildings	£440,000

Required:

Prepare a revised statement of financial position after the proposed scheme of reconstruction and Re-organisation. Clear workings must be shown.

(25 marks)

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Question 3

Android Ltd prepares financial statements at 31 December each year. On 1 January 2012, the company acquired an asset by means of a finance lease. Details of the lease are as follows:

Cash price of leased asset	£55,000
Lease term	5 years
Payments due annually in advance	£13,190
Useful life of asset	7 years
Residual value	£6,000
Rate of interest implicit in the lease	10% per annum

Android Ltd will obtain legal ownership of the asset at the end of the lease term. The company computes depreciation using the straight line basis.

Required:

- a) Prepare a table to compute the annual interest charges and closing liability for the life of the lease. **(15 marks)**
- b) Prepare the Statement of financial position and Statement of comprehensive income extracts for each of the years to 31 December 2012, 2013, 2014, 2015 and 2016, ensuring the correct disclosure of the relevant asset and liability (both current and non-current, ignore discounting). **(10 marks)**

Question 4

Spyclarke plc prepares financial statements to 31 December each year. The following events occurred after 31 December 2011 but before the financial statements for the year ended 31 December 2011 were authorised for issue:

- a) Inventory held at 31 December 2011 was sold to a customer.
- b) The entity made a major investment in plant and equipment.
- c) The entity made a takeover bid for another entity.
- d) A customer who owed an amount of money to the entity at 31 December 2011 was declared bankrupt.
- e) The entity declared a major restructuring plan.
- f) It was discovered that an asset included in the Statement of financial position at 31 December 2011 had been stolen on 28 December 2011.

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Question 4 continued....

- g) It was also discovered that another asset of the same type had been stolen on 12 January 2012.
- h) In February 2012 the government announced a change in tax rates that will have a significant effect on the entity's tax liability at 31 December 2011.

Required:

- a) Classify each of the events as either an adjusting event or a non adjusting event and briefly explain how each event should be dealt with in the entity's financial statements for the year ended 31 December 2011. Assume that all the above events are material. **(16 marks)**

- b) On 15 May 2012 the company's auditors discovered a fraud in the material requisitions department. A senior member of staff who took up employment with the entity in August 2011 had been authorising payments for goods that had never been received. The payments were made to a fictitious company that cannot be traced. The member of staff was immediately dismissed. Calculations show that a total amount of the fraud to the date of the discovery was £480,000 of which £420,000 related to the year ended 31 December 2011 (assume the fraud is material). The company has contacted its insurers in respect of the fraud. The company is insured for theft but the insurance company maintains that this is a commercial fraud and is not covered by the theft clause in the insurance policy. Spyclarke has not had an opinion from its Lawyers.

Required:

Explain how the item above should be treated in Spyclarke's financial statements for the year ended 31 December 2011 in accordance with relevant international financial reporting standards. Your answer should quantify the amounts where possible.

(4 marks)

END OF PAPER